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IN THE

Supreme Court of the United States

OCTOBER TERM, 1962

No. 653

FARBENFABRIKEN BAYER A.G., *Petitioner*

v.

STERLING DRUG INC., *Respondent*

[Antitrust Case]

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE THIRD CIRCUIT

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TABLE OF CONTENTS

	Page
Opinions Below	2
Jurisdiction	2
Questions Presented	2
Statute Involved	4
Statement of the Case	4
Reasons Why the Writ Should Be Granted	13
The Nature of the Issue	14
I. The Decision of the Third Circuit Is in Conflict With This Court's Decision in *Timken*	16
II. The Decision of the Third Circuit Is in Conflict With the Decision of the Second Circuit in the *Orenstein-Koppel* Case	23
III. The Decision Below Denying Relief to Petitioner Is Contrary to the Antitrust Policy Expressed in *Timken* and *Orenstein-Koppel* and as Implemented by the Government	25
IV. The Decision of the Court Below Is a Denial of Due Process in Violation of the Decision of This Court in *Fountain* v. *Filson*, 336 U.S. 681, and Contrary to the Decision of the Sixth Circuit in *Begnaud* v. *White*, 170 F. 2d 323	27
Conclusion	31
Appendix A	1a
Appendix B	8a

TABLE OF AUTHORITIES

Page

American Bosch Magneto Corporation v. *Robert Bosch Magneto Company*, 215 N.Y. Supp. 389 (Sup. Ct. 1926) 24

Begnaud v. *White*, 170 F. 2d 323 (6th Cir. 1948) ..27, 29, 31

Coca-Cola Co. v. *J. G. Butler & Sons*, 229 F. 224 (E.D. Ark., 1916) 14

Doehler Metal Furniture Co. v. *United States*, 149 F. 2d 130 (2d Cir. 1945) 30

Fountain v. *Filson*, 336 U.S. 681 .....28, 31

Koppel Industrial Car & Equipment Co. v. *Orenstein & Koppel Aktiengesellschaft et al.*, 25 F. 2d 716 (2d Cir. 1928) 19, 23, 24, 25, 27

Sterling Drug, Inc. v. *Charles B. Harding, et al.*, Civil Action No. 882-52 (D.N.J.) 11

Timken Roller Bearing Co. v. *United States*, 341 U.S. 592 .....3, 14, 16, 17, 19, 20, 21, 22, 23, 24, 25, 27

United States v. *The American Bosch Corp.*, Civil Action No. 20-164 (S.D.N.Y. 1942) 11, 26

United States v. *Bayer Company*, 135 F. Supp. 65 (S.D.N.Y. 1955) 21

United States v. *Imperial Chemical Industries*; 100 F. Supp. 504, 592 (S.D.N.Y. 1951) 22

United States v. *National Lead Co.*, 63 F. Supp. 513 (S.D.N.Y. 1945, aff'd, 332 U.S. 513 (1947) 22

United States v. *SKF Industries, Inc.*, CCH 1950-1951 Trade Cases § 62,708, Paragraph V(6) 26

STATUTES AND MISCELLANEOUS:

28 U.S.C. § 1254(1) 2

Section 1 of the Sherman Act, 26 Stat. 209 (1890), 15 U.S.C. § 1 4

Fugate, Foreign Commerce and the Antitrust Laws (1958), p. 109 .....21, 27

6 *Moore's Federal Practice* 30

Rule 19(b), Rules of the Supreme Court 31

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To the Honorable Chief Justice of the United States and the Associates Justices of the Supreme Court of the United States:

Farbenfabriken Bayer A.G., petitioner herein, by its attorneys, prays that a writ of certiorari issue to the Court of Appeals for the Third Circuit to review the decision of that Court in this case.

OPINIONS BELOW

The opinion of the Court of Appeals for the Third Circuit affirming the decision of the District Court, but on different grounds, reported at 307 F.2d 210, is attached as Appendix A, p. 1a.

The opinion of the District Court for the District of New Jersey granted summary judgment in favor of respondent, reported at 197 F. Supp. 627, is attached as Appendix B, p. 8a.

JURISDICTION

This case seeks review of a Judgment of the United States Court of Appeals for the Third Circuit entered on August 9, 1962. A Petition for Rehearing was filed on August 24, 1962 and was denied on September 11, 1962.

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

QUESTIONS PRESENTED

1. Where an illegal agreement has bound a large foreign corporation of world-wide reputation not to sell in the United States and not to use its trademarks or trade names in the United States, is it proper relief to the foreign corporation on dissolution of the illegal agreement, to permit it to use these trademarks and trade names in the United States, (of course, properly distinguished from the form in which those marks are used by the American partner to the illegal agreement)?

2. May petitioner, a German corporation with a long established and world-wide reputation under the name Bayer, be prevented from using its trademarks and

trade names in the United States by respondent owner of the American Bayer trademark, where such ownership is asserted in such a manner as to continue to effect some of the restraints of now dissolved agreements between the partners concededly illegal under the antitrust laws?

3. Does the *Timken Roller Bearing Co.* v. *United States*, 341 U.S. 592 require respondent an American concern to avoid using its trademarks to exclude German petitioner from competition in the United States markets under its trademarks and trade names?

4. Is a German company, whose American subsidiary has been seized and sold by the Alien Property Custodian, entitled to compete in the United States with the acquirer of such subsidiary under the name under which it is known all over the world?

5. Is it a violation of the doctrine of this Court in *Timken* to construe an agreement by a foreign company consenting to the transfer of a trademark from one American subsidiary to another to give the acquiring subsidiary the power to prevent use of such trademark by the foreign parent in the United States market?

6. Was petitioner denied due process by the action of the Court of Appeals affirming the grant of respondent's motion for summary judgment on the sole basis of facts not presented in support of respondent's motion, and not relied on by the District Court, but conceded by petitioner solely for purposes of petitioner's cross-motion for summary judgment and which petitioner had no opportunity to contradict?

STATUTE INVOLVED

Section 1 of the Sherman Act, 26 Stat. 209 (1890), 15 U.S.C. § 1 reads in pertinent part:

> "Sec. 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is hereby declared to be illegal. * * *"

STATEMENT OF THE CASE

Petitioner, Farbenfabriken Bayer A.G., is a corporation organized under the laws of the Federal Republic of Germany. It was established in 1953 as a successor of a part of the business formerly conducted by I.G. Farbenindustrie, A.G. (hereinafter referred to as I.G. Farben). I.G. Farben in 1925 had succeeded to the business conducted since 1863 by Farbenfabriken vorm.Friedrich Bayer & Co. (Stipulation 1, 2, App. 39a).[1]

Respondent in this action is Sterling Drug Inc., a corporation organized under the laws of Delaware. It is the legal successor to Sterling Products, Inc., Winthrop Chemical Company, Inc., and the Bayer Company, Inc., a New York corporation and former subsidiary first of petitioner and later of respondent which was merged into the respondent on December 1, 1942. (Stipulation 3, App. 39a).[2]

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[1] Petitioner, I. G. Farben, and Farbenfabriken vorm. Friedrich Bayer & Co., are hereinafter sometimes referred to individually or collectively as "petitioner" or as "German Bayer." While respondent denied the succession of petitioner to I. G. Farben such succession was assumed by the courts below and is not in issue on this petition.

[2] Sterling Drug Inc., and its predecessors or subsidiaries are hereinafter sometimes referred to either individually or collectively as "respondent" or as "Sterling."

Early Use of "Bayer" by Petitioner

During the period between about 1890 and World War I, German Bayer engaged in the sale of pharmaceuticals either directly or through subsidiaries in a large number of countries throughout the world, including the United States (Stipulation 25, App. 44a). In connection with this business, petitioner used the trademarks "Bayer" and "Bayer" spelled in a cross within a circle (herein called the "Bayer Cross"), and directly or through subsidiaries, was the owner of these trademarks in over forty countries, including the United States. (Afdvt., Exhibit A, App. 151a).

United States Distributing Agent

In the United States, German Bayer established in 1894, a wholly-owned subsidiary, Farbenfabriken of Elberfeld Company, to act as its distributing agent in the United States (Stipulation 4, App. 40a). Farbenfabriken of Elberfeld Company sold only pharmaceutical products manufactured by German Bayer and manufactured no pharmaceuticals on its own (Afdvt., Exhibit B, App. 152a). Farbenfabriken of Elberfeld Company used the Bayer trademarks only in connection with its business of distributing the products of German Bayer (Afdt., Exhibit B, App. 152a). It was on the basis of this use that in 1908 Farbenfabriken of Elberfeld Company was granted the United States registration of these trademarks (Stipulation 4, App. 40a).

In 1913, German Bayer dissolved Farbenfabriken of Elberfeld Company and transferred the business of selling its pharmaceuticals in the United States including Bayer trademarks to a newly-organized corporation, The Bayer Company, Inc. of New York (herein

referred to as New York Bayer), also a wholly-owned subsidiary. (Stipulation 5, App. 40a).

New York Bayer continued the business of distributing petitioner's products in the United States (Afdvt., Exhibit B, App. 152a). Like its predecessor, Farbenfabriken of Elberfeld Company, it used the Bayer trademarks only on goods manufactured by German Bayer, except that in or about 1915 New York Bayer began to manufacture a single product, aspirin, and to sell this product under the trademarks "Bayer" and "Bayer Cross." Previously the aspirin had been imported from Germany. With the exception of aspirin, however, the large line of pharmaceutical products sold by New York Bayer consisted only of products manufactured by petitioner in Germany (Afdvt. Exhibit B, App. 152a).

Sterling submitted, in defense of petitioner's motion for summary judgment, the minutes of a Board of Directors' meeting of New York Bayer indicating that in 1913 the Board authorized the execution of certain agreements between German Bayer and New York Bayer. Neither the execution or the performance of these agreements were proved by Sterling.[3]

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[3] The parties do not know whether the agreements were ever executed, and there is nothing in the record indicating whether, and to what extent, these agreements were actually carried out. The execution and performance of the agreements were assumed by petitioner solely for purposes of its own summary judgment, and petitioner urged that these agreements presented no obstacle to summary judgment but even supported such summary judgment. As shown under Point IV, *infra*, these agreements could therefore not properly be considered by the Court of Appeals in granting summary judgment against petitioner. The Court, however, not only considered the 1913 agreements, but treated them as dispositive of the case.

If such agreements were executed, German Bayer would have consented to the

> "sale, transfer, and assignment to Bayer Co., by the New York Corporation Farbenfabriken of Elberfeld Co., of the right for the sale in the United States and Canada of drugs, chemicals, pharmaceuticals and any and all other products *manufactured and (or) controlled* by Leverkusen . . ." [and] to "the sale, transfer and assignment by said Farbenfabriken of Elberfeld Co. to Bayer Co. of its (said Farbenfabriken of Elberfeld Co.'s) *trademarks*, good will and other assets and property." (App. 157a)[4]

and (2) German Bayer would have granted to New York Bayer

> "the sale and exclusive right for the sale within the United States : . . . of all its (Leverkusen's) products, whether dyes, drugs, pharmaceuticals or other . . ."

for a period continuing until 1921. (App. 158).

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[4] The preamble to the same form of agreement states as follows:

"The New York corporation Farbenfabriken of Elberfeld Co. has heretofore had and now has the rights for the sale in the United States and Canada of the dyes, chemicals, pharmaceuticals and other products manufactured and (or) controlled by Leverkusen. Bayer Co. has been organized for the purpose (among other things) of acquiring the said rights, and by corporate action had this day, has been authorized to negotiate for and acquire the trade-marks, good will and other of the assets and property of said Farbenfabriken of Elberfeld Co. Leverkusen is willing to permit Bayer Co. to acquire the said rights now and heretofore possessed by said Farbenfabriken of Elberfeld Co. upon terms and conditions by it (Leverkusen) agreed upon with Bayer Co."

Vesting of New York Bayer and Sale to Sterling

In January 1918, after the United States had declared war on Germany, the entire capital stock of New York Bayer was vested by the Alien Property Custodian and in December 1918 was sold to respondent (Stipulation 7, 8, App. 40a).

Respondent then divided the business of New York Bayer, insofar as is here relevant, into two parts. While New York Bayer continued the sale of aspirin under the Bayer trademarks the rest of the drug business formerly conducted by New York Bayer was transferred to a newly-organized corporation, Winthrop Chemical Company, Inc. (N.Y.), then a subsidiary of New York Bayer and later a subsidiary of Sterling (Stipulation 9, App. 41a, Afdvt. Exhibit B, App. 153a). Thus, after this transaction the name "Bayer" was used by respondent in the United States only in connection with the sale of aspirin (Afdvt., Exhibit C, App. 154a).

Winthrop, even though it was the owner of all the patents and trademarks which had been held in the name of New York Bayer, lacked the technical knowledge necessary to manufacture many of German Bayer's products which New York Bayer had distributed in the United States. (Afdvt. Exhibit B, App. 152a, 153a)

The 1923 Agreements

In April 1923 petitioner entered into a series of contracts with respondent and its subsidiaries, Winthrop and the New York Bayer (Stipulation 13, App. 41a). This series of contracts is herein referred to as the "1923 contracts." (Exhibits A, B and C to the Stipulation filed herein, App. 49a, et seq.) They are conceded

by both parties to be a violation of the Sherman Anti-trust Law. (Stipulation 18, App. 42a).

Exclusion From American Market

The basic agreement, the contract between New York Bayer and petitioner, hereinafter sometimes referred to as the "Bayer" contract (Exhibit B to the Stipulation, App. 58a), eliminated German Bayer as a competitor on the American market and contained a division of other markets between German Bayer and Sterling. As one important means of effectuating this arrangement the trademarks "Bayer" and "Bayer Cross" were allocated to Sterling in certain countries, including the United States. Pursuant to paragraph 2 and 3 of the agreement (App. 59a) petitioner agreed not to contest the title of New York Bayer in the trademarks "Bayer" and "Bayer Cross" in the United States, not to compete on the American market and not to license or permit other firms to use these marks in the United States in pharmaceutical and related fields. New York Bayer, on the other hand, agreed that it would use the Bayer trademarks only on aspirin and similar products (paragraph 26 of agreement, App. 67a). Under this agreement, German Bayer was completely excluded from the American market and Sterling was protected from any competition by German Bayer, both under the Bayer trademarks and under any other trademark.

Winthrop Shielded From Competition By German Bayer Products

In a further contract, this one between Winthrop, a wholly-owned subsidiary of Sterling, and German Bayer, herein sometime referred to as the "Winthrop contract" (Exhibit A to the Stipulation, App. 49a),

Winthrop obtained the right to exploit petitioner's patents, trademarks and know how, in the United States and was shielded from any competition by German Bayer in the sale of such products. The provisions of the agreement dealing with the trademarks "Bayer" and "Bayer Cross," identical to those in the "Bayer" contract discussed above, were not designed to protect Winthrop's right to the use of these trademarks (since it did not use them) but rather to prevent German Bayer from using these marks in competition with Winthrop.

Negative Use of Bayer Marks to Restrain Petitioner

To complete the arrangements Sterling promised not itself to use the trademarks "Bayer" and "Bayer Cross" in the United States but to limit the use of these marks to New York Bayer and Winthrop (Exhibit C to the Stipulation, App. 76a). Since Winthrop conducted its business under other trademarks the use of these marks were thereby effectively limited to New York Bayer, and it used them on only a single product, aspirin. Under the agreements, however, the marks were used negatively as a mechanism for shielding Winthrop from competition by petitioner.

These agreements, as amended and supplemented in 1926, were in substance performed by petitioner and respondent until sometime in the summer of 1941 (Stipulation 17, App. 42a).

Consent Decrees

On September 5, 1941, consent decrees were entered to complaints filed the same day by the Anti-Trust Division of the Department of Justice against respondent and certain of its subsidiaries or affiliates

in actions entitled *United States* v. *Alba Pharmaceutical Company* and *United States* v. *The Bayer Company, Inc.* Copies of the complaints and decrees are attached as Exhibits O, P, Q and R (App. 104a, et seq.) to the stipulation filed herein (Stipulation 22, App. 43a).

Sterling's Present Use of Bayer Marks to Restrain German Bayer

Sterling continues to use its control over the Bayer trademarks, which it uses only on aspirin[5] to prevent competition by German Bayer in the United States under some form of the Bayer name. Sterling thus keeps in force one of the restraints of the 1923 agreement—the shielding of Winthrop from competition by products bearing the better known "Bayer" name.[6]

German Bayer sells its large line of pharmaceutical products under the Bayer name and marks in many countries throughout the world (Stipulation 25, App. 44a).

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[5] Since the filing of this suit, Sterling began to use the marks also on nasal spray (Afdvt., Exhibit C, App. 154a).

[6] Sterling's determination to enforce these trademarks to their fullest extent is plainly evident. Thus, for example, Sterling has filed a counterclaim in this action (App. 136a) alleging an infringement of its trademarks by their use on calendars which allegedly contained some reference to German Bayer's pharmaceuticals. Sterling also filed in the same District Court (*Sterling Drug, Inc.* v. *Charles B. Harding, et al.*, Civil Action No. 882-52) a suit against Smith, Barney & Co., a company engaged in investment banking, charging that the use of the name "Bayer" and the "Bayer Cross" on a booklet providing information to potential investors in German Bayer's shares infringed its trademarks, because on a single page, in the middle of the pamphlet, mention is made of the fact that German Bayer is engaged in the manufacture and sale of pharmaceuticals.

PROCEEDINGS BELOW

The complaint in the present action was filed on September 28, 1955 (App. 6a). After a number of preliminary motions, on March 9, 1960, the parties, as a result of pre-trial proceedings entered into a detailed stipulation of fact (App. 39a).

On April 22, 1960 respondent filed a motion asking for summary judgment on the ground that the present suit is barred by the doctrine of laches (App. 148a). On January 17, 1961 petitioner filed a cross-motion for summary judgment to establish its right to use a form of the Bayer name with such distinguishing characteristics as might be necessary under the circumstances to avoid confusion (App. 148a). Oral argument on respondent's motion for summary judgment was had on July 20, 1960 and on petitioner's motion on February 15, 1961. On August 1, 1961 the District Court issued an opinion (Appendix B) granting respondent's motion for summary judgment and denying petitioner's cross-motion (App. 190a).

The Court of Appeals, on August 9, 1962, issued an opinion (Appendix A) affirming the decision of the District Court, but on entirely a different ground. While the District Court had ruled that petitioner's claims were barred by laches as requested by Sterling's motion, the Court of Appeals upheld the grant of summary judgment against petitioner on the merits, and as we shall see on the basis of assumed facts, not before the Court.

A petition for rehearing was made and denied on September 11, 1962.

REASONS WHY THE WRIT SHOULD BE GRANTED

This case presents an important and novel question involving the antitrust laws. It deals with the restoration of competitive conditions after the dissolution of an agreement in restraint of international trade. The American partner to the agreement retained power over the trademarks used under the agreements to effectuate a division of markets (under a consent decree with the Government to which its foreign partner was not a party). The American partner has continued to exercise this power to maintain in effect some of the restraints of the illegal agreement.

To secure a restoration of competitive conditions after the termination of the illegal division of market agreements between German Bayer and Sterling, petitioner seeks in this action the right to use the Bayer name and trademarks in connection with the sale of its pharmaceuticals in the United States free from interference by Sterling. It does not seek to interfere in any way with Sterling's use of the name Bayer on aspirin. Indeed to assure that the relief sought would not result in confusion between Sterling's Bayer aspirin and the large line of pharmaceuticals German Bayer would market under the Bayer name, the complaint specifically requested that in granting such relief the court should

> "prescribe appropriate means to assure that the products of [German] Bayer and Sterling are offered and sold under such circumstances as to distinguish the source as the product of the particular producer." (App. 20a)[7]

[7] As will be shown under Point III below this relief is in line with that applied in recent consent decrees entered in Government antitrust cases.

The decision below denied petitioner's claim for such relief necessary to secure a restoration of competitive conditions on the sole ground that Sterling had acquired without restriction Bayer trademarks which had been used to effectuate the illegal division of markets. The Court said:

> "Since we have determined that defendant acquired the trademarks without restriction as to use, defendant's mere exercise of its full rights therein cannot constitute such a misuse as to be the basis for an action under the anti-trust laws. 'It would be a paradox to say that the exercise of a right, expressly granted by law, is unlawful.' *Coca-Cola Co.* v. *J. G. Butler & Sons*, 229 F. 224, 232 (E.D.Ark., 1916)."

This holding is plainly in conflict with this Court's ruling in *Timken Roller Bearing Co.* v. *United States*, 341 U.S. 592, 599 that

> "A trademark cannot be used illegally as a device for Sherman Act violations."

The Nature of the Issue

Petitioner, German Bayer, is one of the largest and best known manufacturers of pharmaceuticals, as well as many other chemical products. German Bayer's business and reputation extends throughout the free world. It is one of the oldest producers of chemicals, and its name has been associated with many of the signal discoveries in the field of pharmaceuticals. It has always conducted, and conducts in many parts of the world its business today, under various forms of the name Bayer.

German Bayer is one of those concerns, such as for example, Dupont or Ford who are of such world-wide renown that their good will cannot be compartmentalized into various individual countries. Any arrangement which prevents a company of this kind from competing under its name in the United States clearly represents a restraint on competition.

German Bayer is restrained from competing in the United States with its pharmaceuticals under the Bayer name. Any use of this name by Geman Bayer, in whatever form, is, as Sterling's past conduct has shown, likely to be attacked by Sterling as an infringement of its United States registrations to the Bayer trademarks. These trademarks, which Sterling uses in connection with its aspirin, restricts German Bayer from competing in the United States with a large line of pharmaceutical products.

German Bayer brought this action under the antitrust laws in order to remove this restraint on its competition in the United States. The relief sought by German Bayer was the removal of this barrier to competition by enjoining Sterling from employing the Bayer trademarks to keep out the large line of pharmaceutical products manufactured by German Bayer and sold by German Bayer in most parts of the world.

Petitioner's claim may be briefly summarized as follows: The relief requested is necessary and appropiate to remove a barrier to the import of petitioner's product into the United States which had been set up by illegal agreements entered into between German Bayer and Sterling in 1923. The source of Sterling's power to prevent the use by German Bayer

of a form of the Bayer name in the United States, are the 1923 division of markets agreements which both parties concede to be in violation of the antitrust laws. The continued use, therefore, by Sterling of this power to restrain German Bayer's competition in the United States after the termination of the illegal agreements constitutes a continuation of one of the restraints imposed by the illegal 1923 agreements. Accordingly, under the antitrust laws, petitioner is entitled to an injunction removing this restraint by enjoining respondent from interfering with use of a form of the Bayer name by German Bayer.

The decision of the Third Circuit denying petitioner this relief, perpetuates the restraint on German Bayer's competition in the United States. It remains as a permanent obstacle to the right of one of the most important foreign producers of pharmaceuticals to compete effectively on the American market.

I. The Decision of the Third Circuit is in Conflict With This Court's Decision in *Timken*

The Third Circuit's disposition of the case is plainly in conflict with this Court's holding in *Timken Roller Bearing Co.* v. *United States*, 341 U.S. 592 (1941). In *Timken* this Court held that an international division of markets between American, French and English producers of roller bearings, effectuated by an allocation of the trademark "Timken" to the producers in each respective country constituted a violation of the antitrust laws.

The Third Circuit believed it could avoid the antitrust aspects of this case, and the plain impact of *Timken* by disposing of this case on the ground that Sterling's trademark rights were unrestricted. The

Third Circuit, did not reject the theory of petitioner's claim for relief under the antitrust laws. The result of the Third Circuit's decision is, however, as inconsistent with *Timken* as would have been a direct rejection of petitioner's claim for relief under the antitrust laws.

The Third Circuit sought to dispose of the case in the following manner:

It held that the source of Sterling's power to prevent German Bayer from using a form of the Bayer trademarks in the United States did not stem from the concededly illegal 1923 agreements because prior to the conclusion of these illegal agreements, Sterling had, through its purchase of the capital stock of New York Bayer in 1918, acquired unrestricted rights to the Bayer trademarks. The Court traced New York Bayer's rights to these trademarks to certain agreements which German Bayer may have concluded with New York Bayer in 1913.

(The Court construed these agreements, we believe, erroneously, as meaning that German Bayer in consenting to the transfer of the Bayer trademarks from Farbenfabriken of Elberfeld Co., up until then its U.S. distributing subsidiary, to New York Bayer, its new distributing subsidiary, also conveyed to New York Bayer such absolute rights to these trademarks as to include the power to exclude any competition by German Bayer under these marks. Although for present purposes, we must assume that the construction given to the agreement by the Third Circuit is correct, we cannot omit to state that such a construction is, in our view, inconsistent with the plain meaning of the agreements and with the parent-sub-

sidiary relationship existing at that time between German Bayer and New York Bayer).[8]

A. On this petition we raise only the question whether the Third Circuit's determination that, since under such a construction of the 1913 agreements, Sterling acquired the trademarks without restriction as to use, its exercise of its rights to the trademarks "cannot constitute such a misuse as to be the basis for an action under the antitrust laws" and that, therefore, these agreements are "dispositive" of this case.

We assert that German Bayer is entitled to relief irrespective of whether the 1913 agreements constituted a transfer of the Bayer trademarks to New York Bayer without restriction.

For ownership of trademarks without restriction does not, as the Third Circuit apparently believed,

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[8] We think it is clear from the context of the 1913 agreement, quoted and relied upon by the court below, 307 F. 2d at 213, that the trademarks transferred together with the right to sell in the United States products "manufactured and/or controlled" by German Bayer were restricted in their use to the same purpose, and in no event for the purpose of preventing the sale of German Bayer's products in the United States under these trademarks.

The parent-subsidiary relationship existing between German Bayer and New York Bayer at the time these agreements were made makes such a construction imperative and the opposite conclusion inconceivable.

Furthermore, Farbenfabriken of Elberfeld Co., German Bayer's distributing agent up until 1913, and whose rights New York Bayer acquired, under the 1913 agreement, did not have the right to assign the Bayer trademarks to New York without the permission of German Bayer. This plainly shows that New York Bayer could not by this transfer have acquired unrestricted rights to these trademarks.

In any case where an agreement may be reasonably construed in such a way as not to result in violation of the antitrust laws, it should not be given a construction which, as we shall see below, would make it violative of these laws.

include the right to use the trademarks in order to violate the antitrust laws. *Timken Roller Bearing Co.* v. *United States, supra*, 341 U.S. at 599.

Sterling clearly has used these trademarks to violate the antitrust laws. Prior to the 1923 agreements Sterling's right in the Bayer trademarks in no event included the right to protect itself against competition by Bayer. Prior to these agreements German Bayer could not only have competed in the American market, but notwithstanding the trademarks owned by Sterling, it could have competed under some form of the Bayer name. This is clear from *Koppel Industrial Car & Equipment Co.* v. *Orenstein & Koppel Aktiengesellschaft et al.*, 25 F. 2d 716 (2nd Cir. 1928), where the Second Circuit held that a German corporation could compete under its own name with its former subsidiary which had been vested and sold by the Alien Property Custodian. Sterling acquired the right to restrain such competition only through the illegal uses made of these trademarks under the 1923 agreements. Sterling employed the leverage of the trademark rights it secured with the purchase of New York Bayer to obtain in the 1923 agreements the complete exclusion of petitioner from the American market and a division of world markets between German Bayer and Sterling based on an express allocation of trademarks involving the United States as well as many other countries.

Sterling's power to restrict competition by German Bayer is because of these illegal agreements, substantially greater today than it would have been had the illegal agreement not been concluded but German Bayer had exercised its right to compete on the American market. The mere termination of the illegal

agreements by the consent decrees did not sweep away the trademark position Sterling had illegally built up as the result of exclusion of petitioner from the American market under these agreements.

The assertion by Sterling of the trademark rights so acquired constitutes, we submit, a continuation of one of the restraints of the illegal agreements. Unless removed it maintains in effect a division of territory forbidden under *Timken*.

Accordingly, the Third Circuit's conclusion that Sterling acquired unrestricted rights to the trademarks by reason of the 1913 contracts is plainly not dispositive of this case. Unrestricted rights to a trademark do not and cannot include the right to misuse these trademarks in violation of the anti-trust laws as Sterling has done and continues to do.

B. Moreover the decision of the Third Circuit erroneously pre-supposes that while the division of markets and the exclusion of petitioner from the American markets, as effectuated by the 1923 agreements, is in violation of the antitrust laws, that a similar division of markets and the exclusion of petitioner from the United States resulting from the 1913 agreements as construed by the Court, is not a violation of the anti-trust laws.

Pursuant to the 1913 agreements, as construed by the Court, German Bayer agreed not to compete on the American market and gave New York Bayer, as means to insure its freedom from competition by its parent, all rights to the Bayer trademarks in the United States, including the right to prevent the importation of goods by its parent. In return, German Bayer was to receive 50% of the profits. This arrangement is strikingly

similar to the 1923 agreements which contain provisions to the same effect and which is *concededly* in violation of the antitrust laws. The 1913 agreements, as construed by the Third Circuit, represents an allocation of markets effectuated by a trademark allocation preventing German Bayer from competing in the United States. Such an arrangement, illegal in its inception, comes plainly to the surface with the purchase of New York Bayer by Sterling. The effect of the 1913 agreements, accompanied by the later sale of the capital stock of New York Bayer to Sterling, is exactly the same is if Sterling and German Bayer had entered directly into an international division of markets agreement, as they did in 1923.

Under this Court's decision in *Timken*, any such division of territories affecting the commerce of the United States violates the antitrust laws, and in our view, constitutes a *per se* violation of these laws.[9] Judge Weinfeld in his opinion in *United States* v. *Bayer Company*, 135 F. Supp. 65, 70 (S.D.N.Y. 1955) stated with respect to the very same 1923 agreement between German Bayer and Sterling which are involved in this case

> "The allocation of world markets of the defined pharmaceutical products amongst Bayer, I. G. Farben and Bayer Products Limited, is so per-

[9] A recent work by one of the leading authors in this field, Fugate, *Foreign Commerce and the Antitrust Laws*, (1958) p. 109, in discussing *Timken*, comments:

> "The Supreme Court, while it has not expressly used the term 'unreasonable *per se*' in regard to this typical cartel arrangement, has, in effect, considered that it falls within that category."

vasive as to constitute a *per se* violation of § 1 of the Sherman Act. . . ."[19]

As previously noted, the 1913 agreements, as construed by the Third Circuit, resulted in a division of markets between Sterling and German Bayer through trademark allocation and had an effect on competition similar to the 1923 agreements. Indeed, if the 1913 agreements are construed as the Third Circuit has done, then the 1923 agreements represent merely a reconfirmation of the situation created as a result of the 1913 agreements.

Accordingly, in no event can the 1913 agreements be considered depositive of petitioner's claim. Whether the restraint originated from the 1913 agreements, accompanied by the sale of New York Bayer to Sterling or by the 1923 agreements alone makes, in our view, no difference in terms of the relief to which petitioner is entitled under the antitrust laws. It cannot, in our view, effect petitioner's right to have this restraint removed and its right to compete under the Bayer name secured. In either case the restraint arises from an arrangement violative of the antitrust laws under this Court's decision in *Timken* and if not removed con-

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[19] See also, Judge Ryan's comment in *United States* v. *Imperial Chemical Industries*, 100 F. Supp. 504, 592 (S.D.N.Y. 1951):

"... the law is crystal clear: a conspiracy to divide territories, which affects American commerce, violates the Sherman Act."

For a statement to the same effect, see *United States* v. *National Lead Co.*, 63 F. Supp. 513, 523 (S.D.N.Y. 1945, *aff'd*, 332 U.S. 513):

"No citation of the authority is any longer necessary to support the proposition that a combination of competitors, which by agreement divides the world into exclusive trade areas, and suppresses all competition among the members of the combination, offends the Sherman Act."

tinues in effect a barrier to competition which is irreconcilable with *Timken*.

The Importance of the Issue

C. There remains, as seen above, in this case, the important issue as to German Bayer's right under the antitrust laws to freely compete in the United States under a form of the Bayer name.

This issue is important for two reasons: The right of a foreign company to a restoration of competitive conditions after an international division of territories arrangement of which it was a participant has been ordered terminated by a government action is a question very likely to arise as a result of future enforcement of the antitrust laws against the American participants to such an arrangement. On the answer to this question depends to a considerable extent whether the enforcement of the antitrust laws against such American companies will actually result in open and free competition in the American market between the former participants in such restrictive arrangements.

The issue is also a significant one because this case involves a restraint which hinders a potentially important competitor from competing effectively on the American market.

II. The Decision of the Third Circuit is in Conflict With the Decision of the Second Circuit in the *Orenstein-Koppel* Case

There is, in our view, a conflict between the Third Circuit's disposition of this case and the Second Circuit's holding in *Koppel Industrial Car & Equipment Co.* v. *Orenstein & Koppel Aktiengesellschaft et al.*, 25 F. 2d 716. That case involved an unfair competition

suit by an American corporation against its former German parent seeking an injunction against the former parent from competing under its name in the United States. The Second Circuit, in modifying a decree granting such an injunction, permitted the German parent to describe the goods sold by it as "manufactured in Germany by the German house of Orenstein-Arthur Koppel." This case, while an unfair competition case and not an antitrust case, appears to have been decided on the basis of antitrust considerations. Relief was granted there, even though the use of such a name might otherwise constitute unfair competition because, as the Court stated, 25 F. 2d at 717:

> ". . . it seems to us that the protection of the defendants in the right to compete at all, which we recognize, requires that they shall be allowed to describe their goods by the true name of their maker."[11]

The policy implied in *Orenstein-Koppel* is the same as that expressed in *Timken*. In *Orenstein-Koppel* the court refused to give the sale of the German company's American subsidiary, which like New York Bayer had been vested by the Alien Property Custodian, the effect of excluding the German parent from competing in the United States under its own name. Without expressly relying on the antitrust laws (which at that time had not yet been much applied to international restraints of competition) the court, we think, acted as it did so as not to create an effective division of

[11] For a decision involving a similar situation and reaching the same result see *American Bosch Magneto Corporation* v. *Robert Bosch Magneto Company*, 215 N.Y. Supp. 389 (Sup. Ct. 1926).

markets between the German parent and its former American subsidiary. *Orenstein-Koppel*, in limiting the rights of the former subsidiary expresses a strong public policy against the restriction of competition by giving the owner of a name and trademark in the United States the power to exclude competition by a foreign competitor which is the orginator of such name and mark. This policy was completely ignored by the Third Circuit. The resulting conflict between the Circuits requires resolution by this Court.

III. The Decision Below Denying Relief to Petitioner Is Contrary to the Antitrust Policy Expressed in *Timken* and *Orenstein-Koppel* and as Implemented by the Government

The relief which petitioner is seeking in this action —the right to use a form of the Bayer name in the sale of pharmaceuticals in the United States free from interference by Sterling—is, in light of *Timken* and *Orenstein-Koppel*, clearly a necessary and appropriate remedy. It is the only way the restraint of competition arising from an illegal division of territories can be removed, and German Bayer placed in a really competitive position on the American market. Any other resolution of this case leaves in effect a practical division of markets between German Bayer and Sterling.

Petitioner's claim for relief is a necessary form of implementing the principles expressed in *Timken* and implicit in *Orenstein-Koppel*. Though, without direct judicial precedent, petitioner's claim is, we think, compelling in its simple logic. It is also squarely in line with the policy of the Department of Justice as expressed in the provisions of a number of consent

decrees in cases involving comparable international divisions of markets.

Most pertinent in this respect is the amended consent decree entered in *United States* v. *The American Bosch Corp.*, Civil Action No. 20-164 (S.D.N.Y. 1942). That case, as to this one, involved a division of markets agreement between German and American companies. As a result of World War I vesting, each had the right to use the Bosch name in various parts of the world. The original consent decree was entered in 1942. In 1948, however, in order to eliminate the restraint of competition arising out of this agreement, the decree was amended to include a specific provision enjoining the American Bosch Corporation from interfering with the right of the German company, Robert Bosch G.m.b.H., to compete in the United States under the Bosch name. The decree in that case enjoined the American Bosch from:

> "Interfering with or preventing, by suit for trademark infringement or other action based on trademark or tradename rights, Robert Bosch . . . or any other corporation, association, firm or person whomsoever which manufactures, sells or distributes Bosch products, from shipping such products into or disposing of them in, the United States under any name or designation rightfully attached to such products in the territory from which exported, provided such parties take appropriate steps to prevent confusion of such products with those produced by American Bosch."

See also the consent decree in *United States* v. *SKF Industries, Inc.*, CCH 1950-1951 Trade Cases § 62,708.

Paragraph V(6), and Fugate, *Foreign Commerce and the Antitrust Laws* p. 318.[12]

The policy of the Department of Justice as expressed in these decrees, is that barriers to trade arising out of trademark allocations undertaken to implement illegal international divisions of market must be removed to restore competitive conditions. This policy of the Department is consistent with and motivated by the same considerations as were the decisions in *Timken* and *Orenstein-Koppel*.

IV. The Decision of the Court Below is a Denial of Due Process in Violation of the Decision of This Court in *Fountain* v. *Filson*, 336 U.S. 681, and Contrary to the Decision of the Sixth Circuit in *Begnaud* v. *White*, 170 F. 2d 323

The procedure followed by the Court of Appeals violated due process and is in conflict with this Court's decision in *Fountain* v. *Filson*, 336 U.S. 681 and contrary to the decision of the Sixth Circuit in *Begnaud* v. *White*, 170 F. 2d 323. This is because the Court of Appeals in affirming the decision of the District Court relied on supposed 1913 agreements whose execution

[12] Fugate, an expert in this field, states:

> "'Trade-mark relief is included in antitrust judgments where trade-marks have been used as an instrument of antitrust violation, or in consent judgments, where trade-marks are alleged to have been so used. This type of relief has been employed mainly in foreign trade cases. It is designed to remove barriers to the United States imports and exports, which have been set up by parties to illegal arrangements, where the parties have restricted United States commerce through the use of trade-marks. *The court, for example, may order* the adoption by an American defendant of a new mark or marks for foreign trade, or *may order that a mark registered in the United States not be enforced to keep out imported products bearing a similar mark*." (Emphasis supplied.)

and performance were never proved, and with respect to which petitioner never had any opportunity to defend itself.

These agreements were not the basis for the District Court's grant of summary judgment. Nor were they even presented to the District Court in support of respondent's request for such judgment. The agreements were presented by respondent only in opposition to petitioner's cross-motion.

This Court held in *Fountain* v. *Filson*, 336 U.S. 681 that a Court of Appeals may not order the grant of a summary judgment where it was based on "a new issue as to which the opposite party had no opportunity to present a defense before the trial court." *Id.* at 683.

Under that decision it was clearly improper for the Court of Appeals to base its decision granting summary judgment on the 1913 agreements. This is because petitioner had never conceded the execution of these agreements but had assumed the execution and performance of the agreements solely for purposes of its own motion for summary judgment.

Respondent did not rely on the 1913 agreements in support of its motion for summary judgment. This motion had been based on the sole ground of laches. Thus, petitioner did not have any occasion to submit evidence relevant to these agreements as a defense to respondent's motion. Respondent's motion for summary judgment was briefed, argued and placed *sub judice* without any reference ever having been made to the 1913 agreements. Respondent's motion was filed April 22, 1960 (App. 148a), and argued July 20, 1960. The supposed 1913 agreements were presented to the court only seven months later on February 9, 1961 (App. 156a) under the following circumstances:

While respondent's motion was *sub judice* petitioner filed a cross-motion for summary judgment on the merits.[13] As a *defense* to petitioner's motion, respondent, together with its reply memorandum in opposition, filed six days before oral argument, submitted by affidavit the minutes of a meeting of the Board of Directors of New York Bayer at which the execution of the supposed 1913 agreements was authorized (App. 157a). Sterling did not prove that the agreements were in fact executed and presented no evidence showing that these agreements had been performed in whole or in part.

Petitioner in its reply memorandum in support of its own motion filed on February 14, 1961, the day prior to oral argument, assumed that for purposes of its own motion for summary judgment these agreements were in fact executed and performed. It urged that even, assuming execution and performance these agreements, they presented no obstacle to petitioner's motion, but rather supported it. Thus, petitioner in its Reply Memorandum stated, p. 12:

> "While defendant is unable to find in its files executed copies of these agreements and is not certain whether these agreements were executed, and while plaintiff does not have copies of these agreements in its file, plaintiff assumes *for the purposes of this motion* that these agreements were executed and carried out by the parties." (emphasis supplied)

Since this concession was only for purposes of petitioner's motion for summary judgment, it could not be used for any other purposes and especially it could not support summary judgment for respondent. As the Sixth Circuit held in *Begnaud* v. *White*, 170 F. 2d at 327:

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[13] Petitioner's cross-motion was filed on January 17, 1961 (App. 148a) and argued February 15, 1961.

> "The fact that both parties make motions for summary judgment, and each contends in support of his respective motion that no genuine issue of fact exists, does not require the court to rule that no fact issue exists. Each, in support of his own motion, may be willing to concede certain contentions of his opponent, which concession, however, is only for the purpose of the pending motion. If the motion is over-ruled, the concession is no longer effective. Appellants' concession that no genuine issue of fact existed was made in support of its own motion for summary judgment. We do not think that the concession continues over into the court's separate consideration of appellee's motion for summary judgment in his behalf after appellants' motion was over-ruled."

Thus, with the denial of petitioner's motion this concession became ineffective. The affidavit submitted by respondent alone, was clearly insufficient to establish the execution and performance of the 1913 agreements in such a way as to exclude any real doubt as to the existence of genuine issue of fact with respect to these agreements. Absent such a showing, there is no basis for summary judgment. 6 *Moore's Federal Practice* 2123-2125. See *e.g., Doehler Metal Furniture Co.* v. *United States,* 149 F. 2d 130, 135 (2d Cir. 1945).

Accordingly, the case was decided against petitioner on an issue—i.e., the 1913 agreements—which were not presented in support of Sterling's motion for judgment and which petitioner had no opportunity to contradict. If, in fact, the execution and performance of the 1913 agreements should be deemed dispositive then petitioner was entitled to an opportunity to address itself to this question. In fact, petitioner has evidence tending very strongly to show that the practice of the parties to the supposed 1913 agreements was, in fact, at

variance with the construction given to it by the Court of Appeals—a fact which would show conclusively either that the agreements were not executed or were construed by the parties in a manner contrary to what the Court of Appeals regarded as their "plain meaning."

Therefore, not only theoretically but in fact petitioner was deprived of an opportunity to make a defense to the issue which the Court of Appeals decided as dispositive. Of this, petitioner had no notice since, concededly, the Court of Appeals decision was "on grounds . . . different than those of the District Court" 307 F. 2d at 212, n. 4.

The denial of this elementary right of defense on the merits is not only a violation of the decision of this Court in *Fountain* v. *Filson*, and of the Sixth Circuit in *Begnaud* v. *White*, but in the words of Rule 19(b) of this Court's Rules has "so far departed from the accepted and usual course of judicial proceedings . . . as to call for an exercise of this Court's power of supervision."

CONCLUSION

For the reasons stated the writ should be granted.

Respectfully submitted,

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